

VZCZCXRO9511
RR RUEHBI RUEHCI
DE RUEHKT #0531/01 1301030
ZNR UUUUU ZZH
R 091030Z MAY 08
FM AMEMBASSY KATHMANDU
TO RUEHC/SECSTATE WASHDC 8474
INFO RUEHNE/AMEMBASSY NEW DELHI 2408
RUEHBJ/AMEMBASSY BEIJING 6476
RUEHKA/AMEMBASSY DHAKA 2082
RUEHIL/AMEMBASSY ISLAMABAD 4828
RUEHLO/AMEMBASSY LONDON 6043
RUEHLM/AMEMBASSY COLOMBO 6792
RUEHSA/AMEMBASSY PRETORIA 0120
RUEHCI/AMCONSUL KOLKATA 4164
RUEHBI/AMCONSUL MUMBAI 3853
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RHEHNSC/NSC WASHDC
RUEAIIA/CIA WASHDC
RHEFDIA/DIA WASHDC
RUEKJCS/SECDEF WASHDC
RHMFIUU/CDR USPACOM HONOLULU HI

UNCLAS SECTION 01 OF 02 KATHMANDU 000531

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [PGOV](#) [ENRG](#) [ECON](#) [ETRD](#) [EFIN](#) [EPET](#) [NP](#)

SUBJECT: NEPAL'S OIL CRISIS DEEPENS

Summary -----

¶1. (SBU) Nearly a month after the Constituent Assembly Election, Nepal is again facing major fuel shortages and the Indian Oil Corporation (IOC), Nepal's sole source of petroleum products, is again seeking payment. On April 28, the Nepal Oil Corporation was only able to make a partial payment; in response, the IOC cut supplies by 45 percent. In order to ensure continued supplies and prevent yet another fuel crisis, the GON will need to grant, once again, another financial package to NOC to settle its payments to IOC. Both Prime Minister Koirala and the Maoist leadership have met with Indian officials in the past week to discuss this very issue. END SUMMARY.

Oil Supply Tightens After Election -----

¶2. (SBU) In a bid to maintain a smooth supply of petroleum products during the April 10 Constituent Assembly (CA) election, the state-run Nepal Oil Corporation (NOC) used a March private bank loan to make a cash payment of Nepali Rupees (NRs) 250 million (USD 3.9 million) to the Indian Oil Corporation (IOC), NOC's sole petroleum supplier. Shortly thereafter, the NOC cut the supply of diesel and kerosene to dealers by almost 25 percent, warning that it did not have the resources to continue financing regular imports.

Supplies Dwindle -----

¶3. (SBU) On April 28, the NOC delivered only part of its scheduled payment of NRs 1.67 billion (USD 24.7 million) to the IOC. The NOC's payment was nearly USD 9 million short. The IOC responded by cutting supplies of all petroleum products, including petrol, diesel, and kerosene and cooking gas (LPG), by 45 percent. On May 4, the NOC, faced again with a short supply, cut the distribution of petroleum products by nearly 50 percent in the Kathmandu Valley. NOC

officials warn that the supply of all petroleum products will continue to shrink and that by mid-May, when the IOC will revise prices upward again to reflect the rise in global oil prices, the NOC may only be able to meet 25 percent of the demand in the Kathmandu Valley. Reserves in the Valley are estimated to be down to a 3-day supply.

NOC and Dealers Warn of Crisis

14. (SBU) Digambar Jha, Executive Director of the NOC, reported that in May NOC's monthly losses would cross the USD 25.9 million mark, up from USD 8 million in May 2006. The government-supported price controls and the rising international price for crude oil have resulted in huge losses for the NOC. NOC finance manager, Bachhu Kumar Kafle, estimates that the NOC owed more than USD 310 million as of April 2008, including USD 37 million to the IOC and USD 173 million to commercial banks in Nepal. In addition, over the last two years, the Finance Ministry has provided USD 100 million to settle IOC's import bills. Jha stated that in order to ensure normal supplies and avoid a crisis, the GON must immediately grant a financial package to the NOC to settle its payments to the IOC.

COMMENT - NO QUICK SOLUTIONS

15. (SBU) Although long lines and a thriving black

KATHMANDU 00000531 002 OF 002

market are sure to remain part of life